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North Lily Mining Company

April 26, 1996

State of Utah
Division of Water Quality
288 North 1460 West
P.O. Box 144870
Salt Lake City, Utah 84114-4780
Attn: Mr. Mack G. Croft

RE: Ground Water Permit Renewal - Ground Water Permit No. UGW230001

Dear Mr. Croft:

North Lily Mining Company's Ground Water Discharge Permit No. UGW 230001 expires in May, 1996 and to be in compliance with R317-6-6.7 for a continuing operation, North Lily is required and is requesting an extension/renewal of the existing permit. A detailed closure plan is being prepared and will be available in May, 1996. At this time North Lily and North Lily's reclamation consultants would like to meet with Division of Water Quality personnel to discuss the proposed plan.

North Lily has made continuous efforts in reclaiming the areas distributed during the life of the Project. The area around each of the dumps North Lily removed and stacked on it's heap leach pads at the Silver City site have been graded, terraced, seeded, mulched, and fertilized. All of these areas are showing significate plant growth and should be in compliance with reclamation requirements of the Division of Oil, Gas, and Mining.

Spillway samples have been taken to monitor the reduction of metals and cyanide in the solution coming off the heap leach pads. The rinsate coming from the heap leach pads will not meet ground water quality standard at this time, however, significate reductions have been noted. Since July, 1993 (Wad) cyanide levels have been decreased from 1264 mg/l to 153 mg/l in March of 1996. Likewise, copper has been reduced from 1110 to 162 mg/l, selenium has been reduced from 0.529 to 0.03 mg/l and chromium has gone from <0.10 to <0.025 mg/l to show just a few of the significate reductions.

In November, 1994 North Lily installed a portable carbon plant in the system, in which solutions coming from the pads were circulated. This had a multi beneficial effect on the operation; gold and silver values were recovered, some of the base metals in the solution were recovered, and the complex (Wad) cyanide compounds were broken down, all of which brought the solution closer to water quality standards.

The amount of moisture received from nature in 1995 (14.56 inches of rain and 52.12 inches of snow) has helped in the through rinsing of ore and the reduction of metals and cyanide in the heaps and

solution coming from the heap leach pads. Nature has continued to help in the rinsing of the heap leach pads at the Silver City operation this year. The above normal precipitation for the first quarter of 1996 was 3.952 inches of rain and 50.25 inches of snow.

A detailed closure plan is being prepared for submittal to the Division of Water Quality. The closure plan will contain a method/methods to be used in the destruction of cyanide to meet the guide lines for neutralization of less than or equal to 0.20 mg/l (WAD) cyanide in the final heap rinsate sample from the heaps.

Once the destruction of cyanide has been completed, North Lily would like the Division of Water Quality to considered Land Application Disposal (LAD) of the remaining 2 to 3 million gallons of metal bearing solution. It is believed that this would be the most efficient and cost effective method available for disposing of the metal bearing solution following cyanide destruction. LAD is based on the soils ability to absorb complex metals as well as replace natural moisture deficiency. LAD operations can only be conducted during dry conditions. Based on experience at similar sites it is believed that solution could be applied at a rate of about a acre foot per acre over a 30 day period at the Silver City site. Approximately 10 acres would be required to dispose of the 3 million gallons of solution. Some of the criteria that we believe the Division of Water Quality will need to approve such a request is a defined site location for disposal, composition of soil in the disposal area, and solution characterization. Additional information is being prepared to support this method of solution disposal.

The final closure plan will included plans and a schedule for all necessary earthwork including slope reduction of the materials on the heap leach pads to 3h:1v, compaction to reduce infiltration, grading to provide runoff control, terracing, topsoil replacement, seeding, fertilizing, pond reclamation, building removal, etc.

If you have questions and/or comments, please call.

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or

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Sincerely,

Paul C. Spor
General Manager

cc: Roger A. Foisy, Division of Water Quality
Wayne Hedberg, Division of Oil, Gas, and Mining